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OPEN MEETING



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MEMORANDUM

Arizona Corporation Commission

DOCKETED

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TO: THE COMMISSION

APR 03 2001

FROM: Utilities Division

DOCKETED BY

DATE: April 2, 2001

AZ CORP COMMISSION
DOCUMENT CONTROL

RE: ARIZONA PUBLIC SERVICE COMPANY - APPLICATION FOR APPROVAL OF
AN OPERATING AGREEMENT WITH PHELPS DODGE BAGDAD, INC.
(DOCKET NO. E-01345A-01-0175)

On February 28, 2001, Arizona Public Service Company ("APS") filed an application for approval of an operating agreement with Phelps Dodge Bagdad, Inc. ("PD Bagdad"). A redacted version of the agreement was filed in Docket Control. A complete version of the agreement was filed confidentially with Staff. APS waived the requirement for the Commission to act on the application within thirty days. On March 14, 2001, APS filed a substitute agreement with both Docket Control and Staff. The proposed agreement provides for voluntary interruption of electric service to the Bagdad Mine, located near the Town of Bagdad in Yavapai County.

PD Bagdad has been receiving a discounted rate for electric service to its copper mining operations from APS under an electric service agreement since 1971. The agreement has been amended many times over the years. The most recent amendment, approved by the Commission on January 11, 2001 (Decision No. 63307), added a provision that allows APS to request PD Bagdad to voluntarily interrupt power. The agreement expires on April 1, 2001.

The proposed agreement would replace the current agreement. The new agreement does not contain a discounted rate for PD Bagdad. The mine would receive its electric service under a tariffed rate, Extra Large General Service Time of Use (Rate E-35). The proposed agreement would continue to allow APS to request PD Bagdad to interrupt power to the mine.

Under terms of the proposed agreement, a mutually agreed-upon load ("MW") would be available for interruption on at least one-hour notice. APS could request an interruption for any reason. PD Bagdad would be under no obligation to accept the interruption. There would be a minimum of four hours for each interruption, but there would be no maximum number of hours. APS would pay Bagdad an agreed payment amount per MWh for all energy interrupted.

If an interruption were to occur in a billing month, purchases made by PD Bagdad for that billing month would be priced at the average price of service under Rate-35 for the last billing month for which no interruption occurred.

THE COMMISSION

April 2, 2001

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The proposed agreement would become effective on April 1, 2001, or upon Commission approval, whichever is later, and would continue through December 31, 2002. The agreement would terminate if PD Bagdad began receiving direct access service.

Staff recommends approval of the proposed agreement because APS benefits by having the option to request an interruption in these times of short supply of generation capacity. So far, APS has interrupted PD Bagdad eight times, all interruptions occurring because APS' reserve margin was low.

When considering whether to request an interruption, APS should consider other available options to obtain power at lower cost. Therefore, Staff also continues to recommend that if the cost of interrupting Bagdad appears in the test year data for a rate case, APS should be required to justify that each interruption was the most cost-effective option at the time of interruption. Otherwise, shareholders may have to bear the cost.

In addition, Staff recommends that the Commission specify in its Order that approval of the agreement at this time does not guarantee any future ratemaking treatment of the agreement with PD Bagdad.



Deborah R. Scott
Director
Utilities Division

DRS:BEK:jbc/RJM

ORIGINATOR: Barbara Keene

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 WILLIAM A. MUNDELL

Chairman

3 JIM IRVIN

Commissioner

4 MARC SPITZER

Commissioner

5
6 IN THE MATTER OF ARIZONA PUBLIC)
SERVICE COMPANY - APPLICATION FOR)
7 APPROVAL OF AN OPERATING AGREEMENT)
WITH PHELPS DODGE BAGDAD, INC.)
8 _____)

DOCKET NO. E-01345A-01-0175

DECISION NO. _____

ORDER

9 Open Meeting

April 17 and 18, 2001

10 Phoenix, Arizona

11 BY THE COMMISSION:

12 FINDINGS OF FACT

13 1. Arizona Public Service Company ("APS") is certificated to provide electric service as
14 a public service corporation in the State of Arizona.

15 2. On February 28, 2001, APS filed an application for approval of an operating agreement
16 with Phelps Dodge Bagdad, Inc. ("PD Bagdad"). A redacted version of the agreement was filed in
17 Docket Control. A complete version of the agreement was filed confidentially with Staff. APS waived
18 the requirement for the Commission to act on the application within thirty days. On March 14, 2001,
19 APS filed a substitute agreement with both Docket Control and Staff. The proposed agreement
20 provides for voluntary interruption of electric service to the Bagdad Mine, located near the Town of
21 Bagdad in Yavapai County.

22 3. PD Bagdad has been receiving a discounted rate for electric service to its copper mining
23 operations from APS under an electric service agreement since 1971. The agreement has been
24 amended many times over the years. The most recent amendment, approved by the Commission on
25 January 11, 2001 (Decision No. 63307), added a provision that allows APS to request PD Bagdad to
26 voluntarily interrupt power. The agreement expires on April 1, 2001.

27 4. The proposed agreement would replace the current agreement. The new agreement does
28 not contain a discounted rate for PD Bagdad. The mine would receive its electric service under a

1 tariffed rate, Extra Large General Service Time of Use (Rate E-35). The proposed agreement would
2 continue to allow APS to request PD Bagdad to interrupt power to the mine.

3 5. Under terms of the proposed agreement, a mutually agreed-upon load ("MW") would be
4 available for interruption on at least one-hour notice. APS could request an interruption for any
5 reason. PD Bagdad would be under no obligation to accept the interruption. There would be a
6 minimum of four hours for each interruption, but there would be no maximum number of hours. APS
7 would pay Bagdad an agreed payment amount per MWh for all energy interrupted.

8 6. If an interruption were to occur in a billing month, purchases made by PD Bagdad for
9 that billing month would be priced at the average price of service under Rate-35 for the last billing
10 month for which no interruption occurred.

11 7. The proposed agreement would become effective on April 1, 2001, or upon Commission
12 approval, whichever is later, and would continue through December 31, 2002. The agreement would
13 terminate if PD Bagdad began receiving direct access service.

14 8. Staff has recommended approval of the proposed agreement because APS benefits by
15 having the option to request an interruption in these times of short supply of generation capacity. So
16 far, APS has interrupted PD Bagdad eight times, all interruptions occurring because APS' reserve
17 margin was low.

18 9. When considering whether to request an interruption, APS should consider other
19 available options to obtain power at lower cost. Therefore, Staff has also continued to recommend that
20 if the cost of interrupting Bagdad appears in the test year data for a rate case, APS should be required
21 to justify that each interruption was the most cost-effective option at the time of interruption.
22 Otherwise, shareholders may have to bear the cost.

23 10 In addition, Staff has recommended that the Commission specify in its Order that
24 approval of the agreement at this time does not guarantee any future ratemaking treatment of the
25 agreement with PD Bagdad.

26 CONCLUSIONS OF LAW

27 1. APS is an Arizona public service corporation within the meaning of Article XV, Section
28 2, of the Arizona Constitution.

2. The Commission has jurisdiction over APS and over the subject matter of the application.

3. The Commission, having reviewed the application and Staff's Memorandum dated April 2, 2001, concludes that it is in the public interest to approve the agreement.

ORDER

IT IS THEREFORE ORDERED that the proposed agreement with PD Bagdad be and hereby is approved.

IT IS FURTHER ORDERED that if the cost of interrupting PD Bagdad appears in the test year data for a rate case, APS will be required to justify that each interruption was the most cost-effective option at the time of the interruption.

IT IS FURTHER ORDERED that approval of the agreement at this time does not guarantee any future ratemaking treatment of the agreement with PD Bagdad.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2001.

BRIAN C. McNEIL
Executive Secretary

DISSENT: _____

DRS:BEK:jbc

1 SERVICE LIST FOR: Arizona Public Service Company
DOCKET NO. E-01345A-01-0175

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